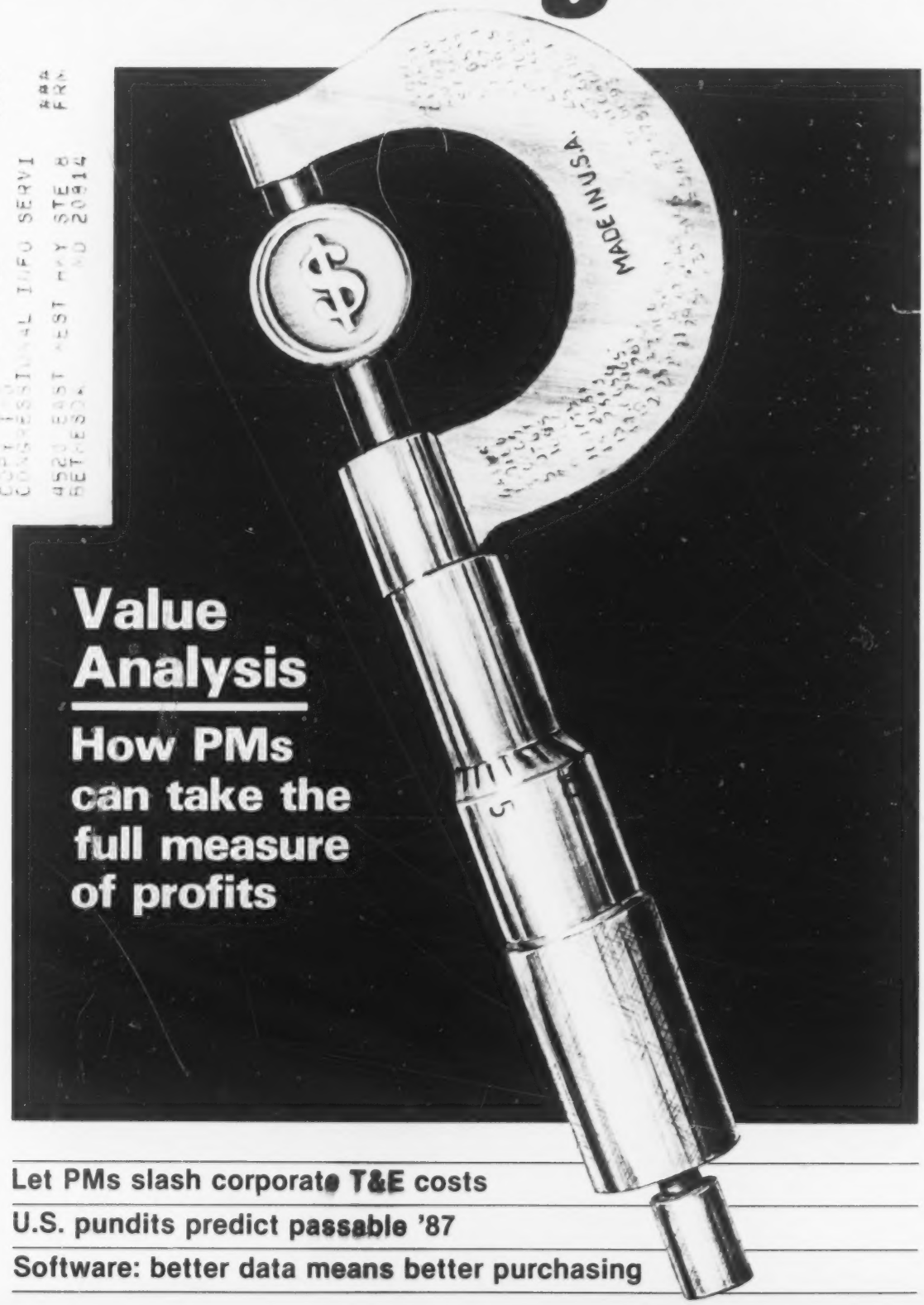
FEB/1987

PurchasingWorld

C 4670-1 A
2/27/87

VOL. 31, NO. 2 FEBRUARY 1987



Value Analysis

How PMs can take the full measure of profits

Let PMs slash corporate **T&E** costs

U.S. pundits predict passable '87

Software: better data means better purchasing

PurchasingWorld®

Helping you manage the business of buying

February 1987 Vol. 31 No. 2

Special report: Value analysis

32 How PMs can take the full measure of profits
There is no doubt that value analysis is one of the purchasing department's most powerful tools for improving quality and profits. Here's a fresh look at how you can save your company millions of dollars through design, material, or manufacturing changes.

54

Features

38 Let PMs slash corporate T & E costs
Corporate travel and entertainment budgets represent a huge chunk of a company's budget. The experts say that purchasing pros have the skills and resources needed to get these costs under control.

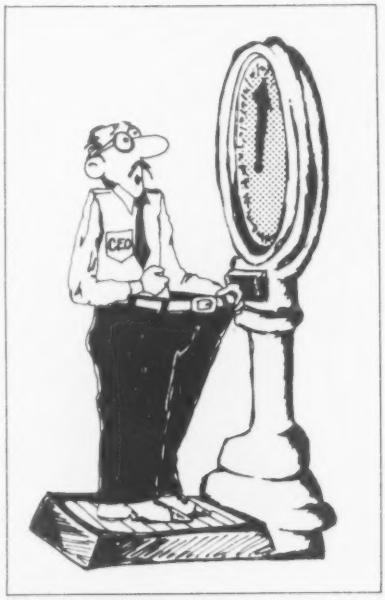
51 U.S. Pundits predict passable '87
Washington analysts are still bullish on the economy—but just moderately. They're calling for a 2% real advance in overall industry shipments. Here's an industry-by-industry breakdown based on the *1987 U.S. Industrial Outlook*.

54 Jump hurdles to automated purchasing
If an automated purchasing system is on your wishlist for 1987, be sure that your corporate management doesn't get in the way of your progress. These tips from a purchasing software maker will help get you up and running.

60 Better data means better purchasing
Here's how purchasing software from MSA has helped a large utility company streamline its purchasing operation—and shave costs.

94 Restructuring: prescription or fad?
The unprecedented number of leveraged buyouts, mergers, and acquisitions in recent months has brought a wave of corporate restructuring that is having a profound effect on purchasing departments.

Cover by Donna D'Amico



94

Departments

4 PW Pointers
6 Editorial
8 PW Predicts
19 Datatrak
86 PW Office '87
88 Transportation Report
93 Law
94 Negotiations
96 Survey of the Month
98 Ad index
98 Classified

PurchasingWorld (USPS 472 470) is published monthly by International Thomson Industrial Press, Inc., 6521 Davis Industrial Parkway, Solon, OH 44139. Printed in USA. Subscriptions: Available without charge to qualified purchasing executives in US manufacturing companies. Available to others in the US for $46/year. Canada $56/year. Foreign subscriptions are available for $85 airmail or $60 surface mail. Sole agent for all subscriptions outside the USA and Canada is J.B. Tratsart, Ltd., 154a Greenford Road, Harrow, Middlesex HA 13QT, England. Second class postage paid at Cleveland, OH, and additional mailing offices. Editorial, circulation, and business offices: 6521 Davis Industrial Parkway, Solon, OH 44139.

* Copyright 1987 by International Thomson Industrial Press, Inc., subsidiary of International Thomson Business Press—All rights reserved

ISSN 0093 1659

Postmaster: Send address changes to *PurchasingWorld*, 6521 Davis Industrial Parkway, Solon, OH 44139

Robert S. Reichard, executive editor

Prices to ease upward

The year seems to be getting off to a good start—at least as far as wage cost pressure on prices is concerned.

A new Conference Board study predicts that negotiated raises will average only 2.5% in 1987. This estimate is confirmed by the Bureau of National Affairs. Its latest survey of 181 companies finds that the majority of those firms (77%) want to hold pay hikes in the 2-4% range.

Moreover, nearly one out of three wants to initiate 2-tier wage structures whereby newer employees are paid less than their older counterparts for the same work. Many also want to relax work rules and reduce cost-of-living protection.

But small pay hikes aren't the only encouraging signs on the labor front. Equally significant is the continuing advance in manufacturing productivity. Since the recovery began in 1982, factory efficiency has been increasing. The average gain over this period is estimated at 4% or more per year.

If this trend continues, 1987 could be another year of zero unit labor cost increase in the manufacturing sector—a big plus factor in keeping industrial goods inflation under control.

There are other price determinants suggesting some upward tilt in prices: 1) an expected rise in oil, 2) somewhat better global supply-demand balance in the basic raw material sector, and 3) the weak U.S. dollar.

But at this point none of these latter factors seems strong enough to make much of a difference. Crude oil, while up in price, will almost surely remain well under the peaks of 1985. Few see oil moving above the $18/barrel for the year as a whole.

Raw materials also suggest only a limited threat. While sectors such as paper, chemicals, and metals have moved toward better market balance, global operating rates in all those areas remain under preferred levels. Implication: continued competitive pricing on these crucial areas.

Last, but not least, there's the much-ballyhooed impact of the softer dollar. While this has tended to push up prices of Japanese and German imports, the dollar has remained quite stable with many of our trading partners. In perspective, the dollar is down a lot less than is commonly supposed—probably only 6-9% on a realistic trade-weighted basis.

It's not surprising that most top economists remain optimistic about holding price boosts to moderate proportions. Lest there be any doubt on this score, take a look at a recent survey of 39 top economists. On average, they see the GNP deflator rising less than 3.5% over the 12-month period ending fourth quarter 1987.

R&D trends

The economy may be a bit sluggish these days. But there'll be little stinting on research and development. Outlays are expected to reach $127.5 billion this year—up 7.4% from last year's estimated levels.

More important, the real gain will be in excess of 4% since R&D inflation is estimated at only around 4%—at least that's how analysts at Battelle, the big Columbus, OH-based research firm, see it.

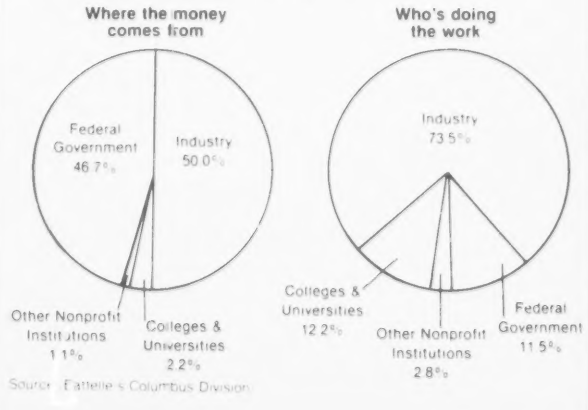
Battelle also finds that the majority of the work (73.5%) will be performed by private industry. On the other hand, industry's share of the money spent on R&D will only be 50%. Most of the other funds will come from Uncle Sam.

Other key findings of the new study:

- Industry support of research is growing in fields related to electronics, communications, sensors, and advanced machinery.
- Industry is also taking over short-term R&D projects and is reacting to the growing pressure from foreign technological competition.
- Increases in defense spending primarily are directed toward long-term acquisition of major weapons systems, including the Strategic Defense Initiative and advanced aircraft—and the R&D needed to support them.
- Energy funds will decline for research on energy supply and conservation, but not for energy programs in direct support of national defense and for general science.
- R&D dollars will continue to support the biological and health sciences—but significant cuts in these areas are anticipated.
- Over the past few years, federal support has tended to shift toward more "development" and less basic and applied "research."

Research & Development

(How this year's 127.4 billion outlay shapes up)



Source: Battelle's Columbus Division

Semiconductor demand

The hard-pressed semiconductor industry still has a long way to go before regaining earlier demand peaks. The slow recovery first noted in 1986 will continue, but the accent should be on the word "slow."

New forecasts by In-Stat, a major electronics research firm in Scottsdale, AZ, suggest that aggregate U.S. sales —including integrated circuits and discrete devices— will be up only about 5% over last year (to $8.86 billion). That's not much above the 4% advance of 1986.

As might be expected, the 1987/1984 shortfall will be greatest in the more volatile integrated circuit sector where 1987 sales totals are still expected to run about 25% under their previous peak.

On a more bullish note, all U.S. markets (with the exception of consumer/autos) should use more semiconductors in 1987 than they did in 1986 (see accompanying chart). Biggest advances are projected for telecommunications where integrated circuits and discrete devices are expected to show sales increases of 10.9% and 5.7%.

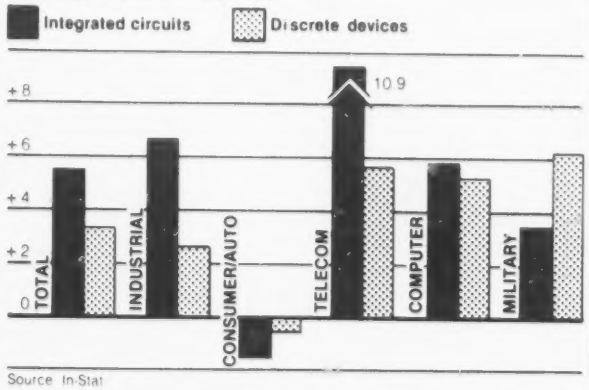
The computer industry, while chewing up 5-6% more of these items in 1987, will continue to look bad when compared to the halcyon days of 1984. In-Stat doesn't expect this end-use segment to recover fully until 1989.

Another disquieting trend: The U.S. share of the world market continues to shrink as non-U.S. semiconductor sales grow at a much faster rate than domestic sales. Growth projections here for 1987: Europe (9.2%), Japan (8.0%), and the rest of the world, including such key areas as Korea, Taiwan, and Hong Kong (32.6%).

In any case, it's hard to shrug off numbers which show the U.S. share of the semiconductor market pie shrinking to 30.6% in 1987—down more than 1% from last year and down more than 14% from the hefty 44.7% share in as 1984.

1987 Semiconductor end-use markets

(% Change in dollars sales '87 /86)

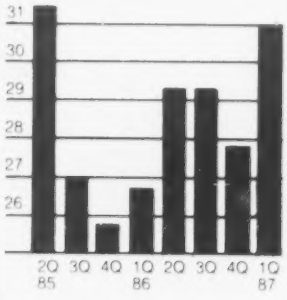


Source: In-Stat

Polyvinyl chloride prices

Pine grade market price

(¢/lb)



Polyvinyl chloride

Prices are firming—quotes are as high as 30¢/lb for pipe grade material. More important, all signs point to continued strength, with market quotes expected to reach the 32¢/lb level by the second quarter. The overall 1987 demand-supply picture also points to strength. Thus shipments this year are expected to advance another 3% (on top of 1986's big 10% jump) to over 7.6 billion lb. Result: Operating rates will move into the relatively high 87% range—significantly above the 70% and 84% readings of 1985 and 1986.

Cellular telephones

Tags have been slipping. The standard mobile unit has dropped to near $1,000 —well under the $2,500 price of 2½ years ago. And while tags have temporarily stabilized here due to exchange rate changes and dumping charges, a further decline is possible for later this year. Other cellular phone types cost a bit more—heavier briefcase models with a cluster of batteries is priced at about $2,000. All of these quotes are in addition to monthly access fees, air time charges, and standard toll charges for long-distance calls.

Polyethylene

Recent hikes in LDPE and LLDPE have held up, with market quotes now in the 28-31¢/lb range (that's up 3-5¢/lb from late 3Q 1986). But the recent 4¢/lb HDPE boost has only been partially successful, with prices now in the 30-32¢/lb range. On the other hand, the supply-demand outlook for HDPE suggests further firming over the long run. Reason: Demand in this part of the industry is now expected to rise another 5% this year. That should be enough to push operating rates above the 95% level, as only about a 1.5% increase in new potential comes onstream over the next 12 months.

Aluminum

Prices should stay pretty much near current depressed levels through spring—as demand remains relatively flat. True, cars will contain a few more pounds of the light metal and the container and packaging industry will grow another 2-3%. But this will be offset by the smaller number of cars and trucks turned out—plus some declines in the construction industry. In any event, it's hard to see ingot going much above the mid-50s range. Not much change in other products either—especially can sheet which is being

Copper

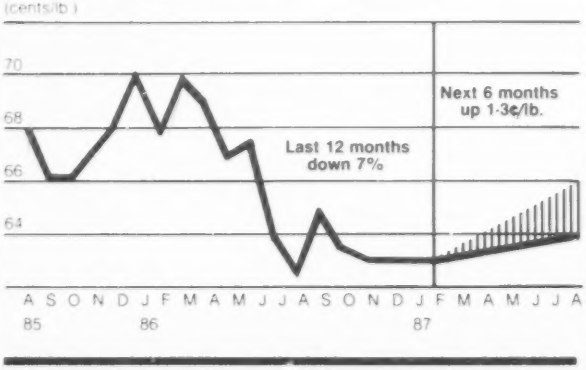
CURRENT SITUATION: Tags remain in the low to mid 60s range—down from the 70¢/lb level of early 1986. Reason: disappointing demand. U.S. chewup of refined metal fell over 2% in 1986—on top of a larger decline in 1985. **Added downward pressure comes from overcapacity and weak global prices.** Comex metal was recently quoted as low as 60¢/lb. A pickup in 1986 U.S. production (total output increased nearly 3%) is also weakening prices.

DEMAND: 1987 doesn't look bullish. A 1% decline in U.S. use (to 2.03 million tons) seems likely as construction and autos take a breather. Global use could move up 1%. Anything beyond that looks doubtful as real GNP advances in other industrial countries parallel those of 1986. The long-term outlook: Substitution will eat into existing markets and no big new use appears likely. **Average U.S. increases through the end of the decade are put at only 1% per year.**

SUPPLY: No problems as Third World countries produce at near capacity to maximize revenue to pay their import bills and interest on debt. If needed, there's plenty of capacity in the U.S. (75% of the world's idled potential is located here). U.S. output has already tended to rise. **Another 7% domestic increase is expected for 1987.** World copper stocks are down to a 6-7 week supply. But they may climb again.

PRICE OUTLOOK: A few cents' advance is possible—but breaking the 70¢/lb barrier this year seems unlikely. If prices rise that high, it may cause a boost in U.S. production which would put downward pressure on tags again. **Even without 70¢/lb +** tags, U.S. producers seem anxious to put more tonnage on the market. Reason: They're more cost competitive thanks to 1) the 20-25% labor cost reduction of 1986 and 2) increasing use of the new SX-EW process.

Producer copper



discounted and price-protected through mid-year. Also holding tags down: new global production. Added output is coming from Becancour (Quebec), Portland (Australia), and Orissa (India).

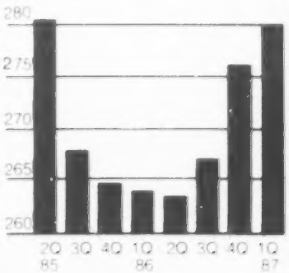
Steel

Discounting still persists. Sheet tags are being reduced from $10-25/ton. And major firming is unlikely. In fact, there could be more softness once USX steel comes back into the market and tries to recoup lost share. Lackluster overall 1987 demand should also contribute to softness—with most forecasts calling for another 1-2% drop in shipments. The only firming sign is the possibility of another 10 million ton reduction in capacity. Even so, U.S. operating rates will remain in the mid-60s range.

Machine tools

Good buys are available on Japanese equipment still stockpiled in U.S. warehouses. But look for some firming around mid-year as recent import curbs (covering Japanese, Taiwanese, German, and Swiss equipment) begin to have some impact. Items most affected by the curbs include NC lathes, small and medium-sized machining centers, punch presses, and certain types of milling machines. But don't expect any major price runup because the industry continues to operate well under capacity—and demand is stagnating, with recent projections calling for a 10% drop in overall domestic shipments this year.

Corrugated carton Prices



Paper

The industry is looking forward to more gains after 1986 advances of 5% in overall demand and a 6% jump in corrugated. Prices continue to firm. Thus 1) the recent $35/ton hike in newsprint (to $570/ton) is holding, 2) producers are attempting another $30/ton boost in linerboard (to $350/ton), and 3) new hikes are reported in market pulp, bleached board, and uncoated white papers. Coated free sheet is firming but discounts persist on coated groundwood as new capacity continues to come on stream.

Zinc

Recent declines from the late 1986 high of near 47¢/lb should continue. Behind the softening: Somewhat weaker demand from the auto sector and recently announced labor settlements. More important: The metal remains in oversupply (existing mine capacity is more than ade-

PW PREDICTS

Energy prices

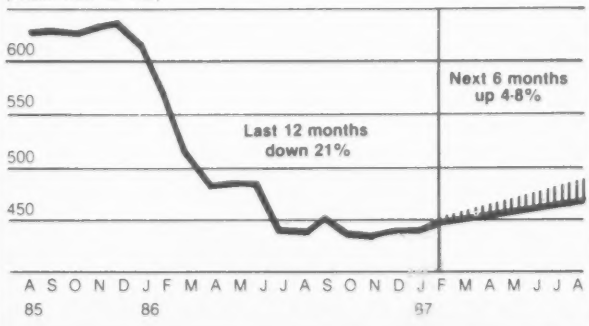
CURRENT SITUATION: The steep 1986 price slide is finally beginning to show signs of bottoming out. The overall energy cost index has moved up 2-3% over the past few months—but that's still about 20% under a year ago. There are signs of more dramatic change—the price of crude oil has jumped significantly over the past few months, reflecting recent OPEC moves. **It suggests that further price boosts are inevitable.**

DEMAND: Recent advances have been quite modest given last year's dramatic decline. Overall 1986 usage rose by only 1%—under the 2.5% increase in real GNP in the same period. Result: Energy consumption (measured in thousands of BTUs per 1982 constant GNP dollar) fell to 20.5—under the 27+ readings of the early 1970s. **This year, usage should parallel GNP—with a total consumption gain of 2.2%.** Look for these other increases: coal (3.0%), electricity (2.4%), natural gas (2.3%), and petroleum (0.3%).

SUPPLY: No problem anywhere—though the oil glut could begin to disappear unless OPEC cartel members start cheating on production quotas. The coal industry has more potential than it knows what to do with. Natural gas continues to be plagued by excesses which should last for at least another year. **Refined petroleum capacity is also adequate**—though recent closings have brought the industry operating rate near the 91% mark—well above the 85% reading of just 18 months ago.

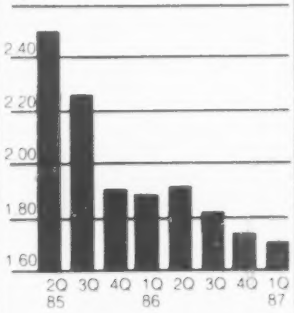
PRICE OUTLOOK: The trend is up with the actual amount of increase depending on the success of OPEC's new strategy. Assuming a crude oil price of about $17/bbl toward yearend, the following advances are suggested: gasoline (19%), #2 wholesale heating oil (25%), #6 resid oil (13%), natural gas utilities (6%), utility coal (1%), and electricity (2%). **Overall energy tags could be up 10-15% in 1987.**

Energy prices
(Index 1967 = 100)



quate to meet demand for another 10 years at 1-2% annual growth rates). In any event, with production returning to near normal levels this year, the Free World could see a surplus of about 30,000 tons in 1987—a dramatic reversal from last year's strike-impaired 160,000 ton deficit. Also aggravating the situation this year: a possible drop in exports to the Socialist bloc.

Nickel prices
(dealer cathode)
(¢/lb)



Nickel

Markets look to remain on the shaky side as the alloying metal faces another year of oversupply. Best bet for 1987: a global excess of 60-80 million pounds in a market of just over 1.2 billion lb. Nor is Inco, the world's largest and lowest cost producer, likely to reduce production. Reason: It would only increase its own unit costs and accommodate higher cost producers and Russia in obtaining a larger market share. As such, dealer cathode is likely to continue fluctuating in the low $1.70/lb range—or maybe even drop a bit below that level from time to time in the months ahead.

Computers

Prices continue to slip—as IBM drops quotes as much as 40% on some PCs. This, in turn, could force clones to drop prices another 50%—into the $500 range—by late spring or summer. The new 32-bit computers (costing three times as much as older models) look firm for the moment. But these, too, should start edging lower as more producers jump into the market. Despite all the easiness, the industry is looking for a 10% increase in dollar sales this year—with totals (including related equipment) reaching $120 billion.

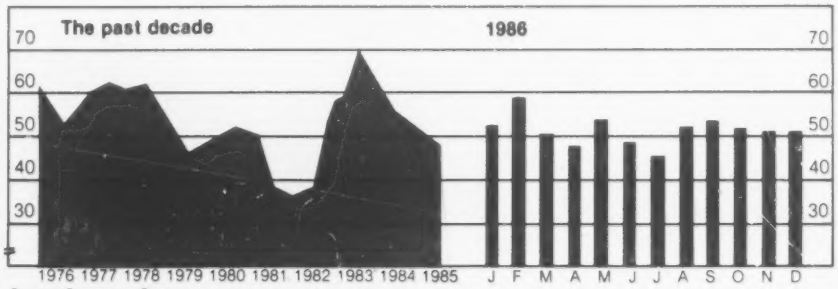
Desktop publishing equipment

New declines could soon push down the low end of the market—some laser printers designed for PC applications are likely to fall under the $2,000 mark. Indeed, there's talk of tags as low as $1,500 by next year at this time. Behind the slide: Over the past year almost 20 firms have entered the field—all fighting for a share of the estimated 300,000 unit-per-year business. But while prices are dropping, users of low-end laser printers face a software problem—the power and speed of 80286 microprocessors can only allow for relatively slow 2-3 pages-per-minute throughput.

BUSINESS DATATRAK

N.A.P.M. business barometer

Based on five indicators (employment, inventories, new orders, production, vendor performance)



Source: Commerce Dept.

KEY ECONOMIC TRENDS

Gains don't come easily

The first quarter is starting where 1986 left off—spotty gains here and there, but not nearly enough underlying strength to ease worries about the still inherently sluggish pace of overall business growth.

The basic trend is best illustrated by the narrow—but positive—51-52 range (50 is neutral) in which the N.A.P.M. Business Barometer has been fluctuating over the past five months.

This could be one reason why the Fed is continuing its relatively easy money policy. Note that the prime rate is down at its lowest level in years (see chart). It could drop another half a percent in the months ahead.

But even with lower interest rates, there's some concern about consumer spending—partly because the big car buying splurge in late 1986 may have borrowed sales from the future. It would be unrealistic to expect any near-term repeat of December when more than 13 million vehicles at annual rate cleared the market (see chart).

It now seems doubtful whether overall 1987 car sales can keep up with last year's 11.4 million total. Most analysts are now predicting sales of only 11 million cars this year.

These figures and others involving purchases of various big-ticket items could prove to be somewhat on the conservative side. Reason: Consumers still have the wherewithall to increase their spending.

Installment debt is high and the savings rate is quite low. But there are compensating factors around. After-tax income should rise another 1.5-2% in real terms this year. More significant, consumer assets have risen sharply because of 1) recent stock and bond market rallies, and 2) a marked rise in home prices.

Factor these income and asset pluses into the spending equation, and consumers can probably afford to increase their overall 1987 outlays by 2.5% in real terms.

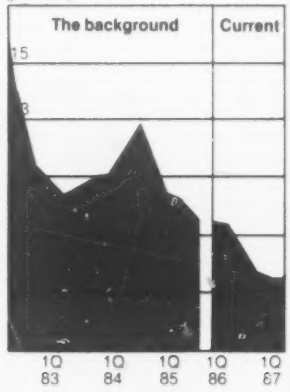
There's also room for some differences of opinion in other indicators which first appear to be negative. While durable factory orders are apparently zigzagging without any apparent direction (see chart), this is mostly due to erratic military ordering. Look at the nonmilitary segment and a slight increase can be discerned over the past few months.

Similarly, all the talk about capital spending turning even weaker can also be questioned. Reason: Most of the softness is in the energy sector. If petroleum can hold onto its recent gains, this negative factor may dissipate.

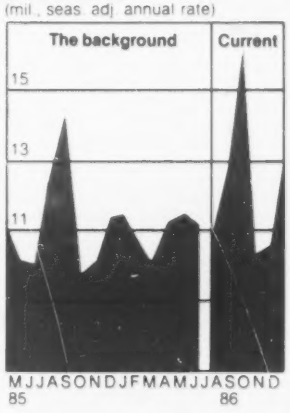
Nor is the trade balance as bleak as it seems. The deficit remains at record levels, but virtually all

Leading indicators

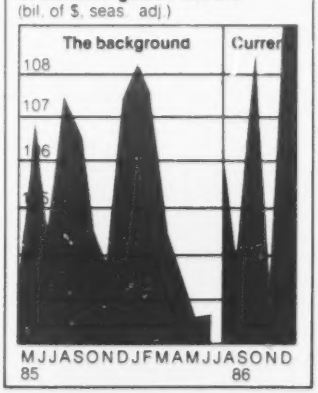
1. Prime interest rate
(percent)



2. Auto sales
(mil., seas. adj. annual rate)



3. Durable goods orders
(bil. of $, seas. adj.)



economists now agree that things will begin to improve—not only because of the weaker dollar, but also because of solid increases in U.S. manufacturing productivity.

Given all of the above, it's not surprising that most top business executives remain optimistic. Some 69% queried by Dun & Bradstreet see the current quarter topping a year ago. Only 6% anticipate a poorer showing.

The recovery is likely to persist for a lot longer than just the next few months. Confirmation of this comes from the latest econometric model forecasts. They show factory output rising 2-2.5% this year—better than last year's small 1% advance.

In short, the odds still favor the economy getting through its fifth straight year in the plus column.

Few problems in your buying future

Count on another month of virtually problem-free procurement.

A combination of factors is behind this trend—including relatively slow demand growth, the absence of crippling work stoppages, and the continued flow of imports to supplement supply holes.

PW's exclusive leadtime index has nudged up a point to 51 and the N.A.P.M. reports a slight increase in slower deliveries (by 8% of surveyed buyers vs. the 4% noting faster service). But these can be regarded as minor blips.

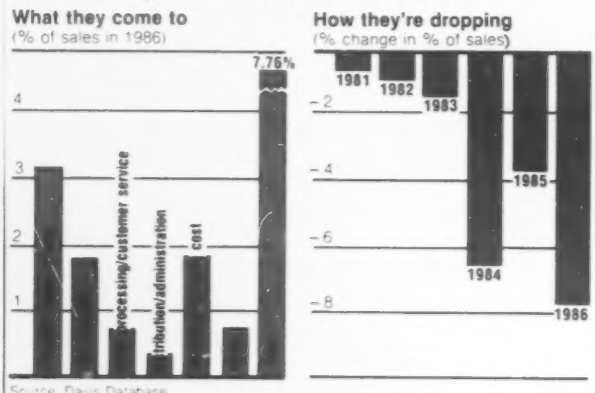
Indeed, some of the recent fears in some areas have actually diminished. Very few PMs seem to be concerned about steel. And earlier talk of a stretchout in some electronic components has all but disappeared as that industry's recovery runs behind expectations.

Also confiming today's problem-free situation:

- The fact that not a single item is currently on the N.A.P.M. short supply list.
- The continued inclination on the part of PMs to cut inventories in the face of steady or slightly higher production needs. It's proof positive that buyers are confident that they can get what they need when they need it.
- The fact that only 19% of queried buyers are committing 90 days or more in advance for production materials. Equally impressive: The number of buyers purchasing hand-to-mouth is in the 17% range.

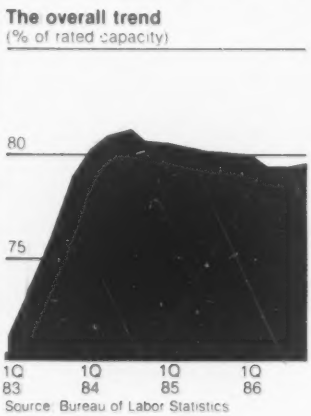
Operating rates also tend to support the feeling that everything is pretty much under control. More to the point: Virtually every single major industry is now operating under its preferred rate.

Physical distribution cost trends



Source: Davis Database

Factory operating rates stay low



Source: Bureau of Labor Statistics

Latest industry details
(% of rated capacity)

Steel	60.3
Nonferrous metals	78.3
Fabric. metal prod.	79.5
Nonelec. mchy.	70.9
Elec. machy.	71.5
Automobiles	74.5
Aerospace	88.3
Instruments	80.3
Textile mill prod.	92.6
Paper & prod.	96.4
Chemicals	80.8
Petroleum prod.	91.0
Rubber & plastic prod.	86.9
Mining	73.0
Utilities	79.4

Physical distribution shapes up

A closer look at physical distribution costs may be in order. A new survey suggests that nearly three out of five firms succeeded in cutting these kinds of outlays last year—far outweighing the small number who experienced increases.

Another eye-opening finding: The average cost in 1986 (expressed as a percent of sales) fell to only 7.8%—marking the sixth consecutive year of decline from the 10% rate of 1980.

The study—based on a 300-company sample by Davis Database, Englewood Cliffs, NJ—also provides some details on the individual costs that make up the overall physical distribution outlay. The biggest is finished goods transportation (3.14%)—followed by inventory carrying costs (1.86%) and warehousing (1.83%). Other contributing costs: order processing and consumer services (0.71%), and distribution administration (0.37%).

Some interesting three to five year trends are noted in the above figures. Transportation has seen a 21% cumulative cost decrease since 1981, reflecting successful efforts to reduce inventories and improve productivity.

On the other hand, order entry and service expenses, while relatively small, rose 5% over the past year. They also increased 3-10% almost every year since 1981—mainly because firms are

handling larger volumes of smaller orders.

The report also finds that there's considerable industry-by-industry variation. High-value drugs show the lowest percent-of-sale distribution cost (3.44%) and industrial non-durables the highest (9.19%).

Also worth noting: The gap between cost cutters and those experiencing cost increases is growing. Thus the 59% who reduced distribution costs an average of 17% last year is in sharp contrast to the 14% who say these costs are rising by an average of 16%.

This suggests that the "winners" had a 33% competitive advantage over the "losers" last year. This 33% differential, superimposed on an average 8% cost, means that the average "winner" ended up with a significant 2-3% greater pre-tax profit than the average "loser."

This month's breakdown

	Latest level (Jan.)	% change from: Month ago	Year ago
Bearings	355.7	-0.2	0.7
Bolts, nuts, etc.	277.8	0.1	0.4
Chemicals, inorganic	293.4	-0.5	-2.4
Chemicals, organic	324.8	0.7	-7.9
Concrete products	324.6	0.2	0.2
Corrugated cartons	277.2	0.4	4.8
Cutting tools, small	294.7	0.9	2.2
Electric lamps (bulbs)	346.9	0.1	0.0
Electronic components	203.1	-0.1	2.4
Fans and blowers	366.5	0.0	1.5
Foundry and forge products	363.3	0.5	-0.1
Fuel oil (residual)	479.7	6.4	-49.8
Furniture, commercial	320.9	0.0	2.3
Gasoline	316.2	1.5	-44.6
Glass, flat	233.0	0.1	1.5
Glass containers	402.0	0.1	3.9
Gypsum products	347.4	-1.4	-2.5
Hand tools	388.5	0.7	2.7
Hand tools, power driven	241.0	0.3	2.5
Industrial furnaces	396.4	0.0	1.0
Integrating and measuring instruments	238.2	0.2	2.5
Internal combustion engines	353.8	0.0	1.9
Lubricating oil	346.3	-1.2	-5.9
Lumber millwork	318.1	-0.2	1.8
Material handling equipment	297.7	0.2	0.8
Metal containers	362.5	0.0	0.4
Metal mill shapes (nonferrous)	297.4	-0.7	-2.8
Metal tanks	299.0	0.0	-2.2
Motors and generators	352.6	-0.1	0.4
Motor trucks	324.0	-2.0	3.7
Office and store equipment	155.2	0.1	1.0
Paperboard	278.7	-1.1	4.5
Paper boxes and shipping containers	274.9	0.1	3.3
Paper office supplies	241.2	0.1	2.1
Paint	281.9	-0.2	1.3
Plastic resins	288.5	-2.4	-3.6
Precision measuring tools	269.8	0.0	1.8
Pumps and compressors	363.9	-0.2	2.2
Refractories	370.6	-0.2	-0.2
Rubber belts and belting	337.2	0.9	0.2
Scales and balances	232.9	0.1	1.7
Steel products	348.6	-0.2	-3.8
Switchgear	285.8	0.0	1.4
Textiles, synthetic fibers	148.4	-0.2	-1.6
Textiles, gray fabrics	149.7	-0.1	-1.3
Tires and tubes	230.9	0.0	-1.9
Transformers and power regulators	234.8	-1.0	0.8
Welding equipment	302.0	0.0	1.7
Wire and cable	204.7	0.0	-0.5

CURRENT PRICES

All an inflation fighter could hope for

Final 1986 producer price index figures have turned out to be a lot better than even the most optimistic inflation fighter had hoped for—with a major assist coming from last year's big oil price slide.

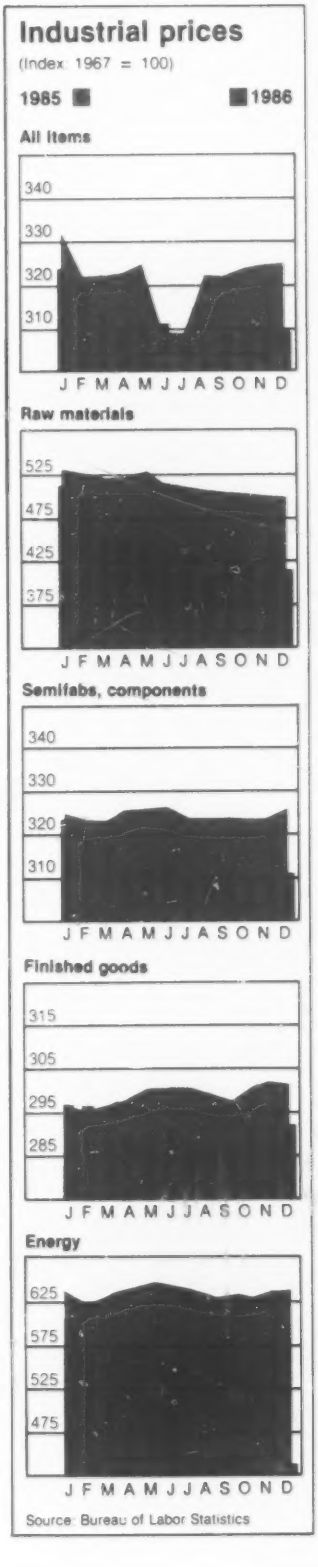
Some of the eye-opening declines from December 1985 to December 1986: all industrial items (-4.9%), raw materials except food (-19.6%), and semifabricated and component items (-4.5%).

From now on, it will be increasingly difficult to duplicate the negative numbers of 1986, mostly because energy tabs seem on the way up again. Latest monthly readings show increases in a wide range of energy areas.

On the other hand, there's little indication of any major shift in other key procurement categories. Construction materials have actually declined (mostly because of seasonal influences), dipping close to 0.5% under month-earlier levels.

A mixed picture is also apparent in the chemical sector. While organics have begun to creep up (reflecting some firming in petrochemical feedstocks), inorganics actually registered a 0.5% decline last month. A larger 2.4% slide was noted in plastic resins. But new 1987 boosts are expected over the next few months.

The absence of any dis-



cernible trend is also noted in metals. The "big three"—steel, aluminum, and copper—have all been doing little more than marking time. A similar pattern is anticipated over the next few months.

Things don't look different in more highly fabricated areas, either. On the component parts front, bearings and fasteners both remain relatively unchanged. And in the machinery sector, a few modest increases have been offset by softness in both light motor trucks, transformers, and power regulators.

In short, take away energy, and the early 1987 industrial price trend doesn't look that different from late last year.

STEEL SCENE

Revived buying seen for near term

There could be a revival in steel demand in the next few months—at least that's what purchasing managers and distributors are expecting these days.

Some 35% of steel buyers queried by the N.A.P.M. say they plan to increase their steel purchases over the next 90 days—considerably more than the 24% who currently plan on cutbacks. More significant, this marks the first time since last March that there have been more positive than negative expectations.

And distributors responding to the latest Steel Service Center Institute (SSCI) survey tell much the same story. Only here, the optimism is even more pronounced—43% see increases in their incoming orders vs. only 14% who anticipate further declines.

But one month doesn't make a trend. And most analysts would want to see similar projections for several months before admitting that the steel demand slump is over.

Andrew G. Sharkey, SSCI president, also wants to wait a while before projecting an overall demand gain for 1987. He is still projecting a slight (2-3%) slippage in his group's shipments—with overall 1987 tonnage dropping to the 21.7 million ton range.

Part of Sharkey's caution stems from concern about the auto and appliance markets. And he still does not see any quick turnaround in energy and farm equipment.

The impact of the new tax law also deserves close attention. Sharkey is a bit nervous over razor-thin profit margins, saying that "while the latest survey shows some improvement, our members could be in for a severe test in the months ahead when mill price increases selectively begin to take effect."

Survey results back up this fear—a fair number

Satisfaction Through
REGIONAL PLUS™

How many times have you been forced to use two or more carriers because one either didn t want to—or couldn t handle both your regional freight and your transcontinental freight?

You know the headaches caused by dock congestion. By unnecessary paperwork. By time spent calling numerous carriers. ANR Freight s RegionalPLUS™ service can help reduce those headaches.

With our RegionalPLUS™ service, all you need is just one carrier to handle both your regional and transcontinental freight needs. RegionalPLUS™ means regional PLUS transcontinental PLUS everything in between.

Contact your local ANR Freight System representative or call 1-800-525-2061.

ANR

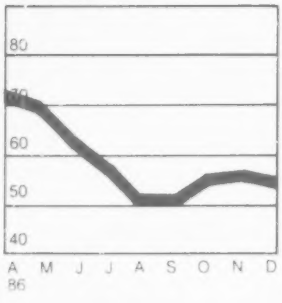
ANR FREIGHT SYSTEM

A subsidiary of The Chessie System

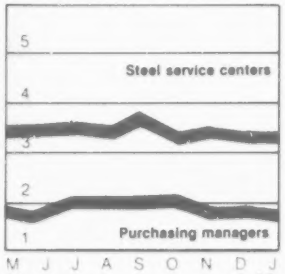
Circle 363 on card

Steel

Operating rates

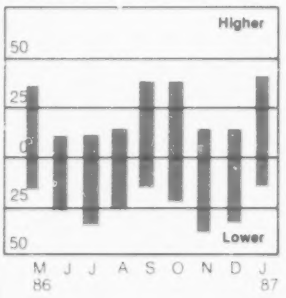


Inventories
(Months supply on hand)

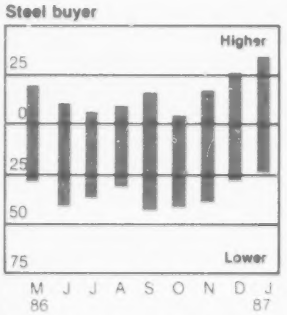


Demand
(Percent of respondents)

Service centers incoming orders



Steel buyer



of service centers say they're bracing for higher steel replacement costs. More to the point: Two out of five respondents see increases ahead, although most feel these hikes will be in the 2-5% range.

Also suggesting upward price pressure is the increasing difficulty of locating overseas bargains. Only 27% of SSCI respondents now report import tags on carbon steel products under comparable domestic levels—a far cry from the 80% and above readings of one year ago.

This, too, is confirmed by buyers—34% report that they are able to find "under U.S." quotes vs. 70% a year ago and 45% three months ago.

And the trend is likely to continue—both buyers and service centers report that overseas vendors are now a lot less active in seeking U.S. orders.

Another trend noted in the last few surveys—Inventories throughout the system are very lean. But this has to be regarded as a positive sign because it means that any sizable increase in final demand would quickly be translated into new steel orders. But until that time, both survey groups seem determined to keep inventories lean—or even cut them back a little further. Nearly 25% of queried service centers say their steel inventories are still too high relative to shipments.

Buyers agree—41% say their holdings are too high relative to sales. More significant, nearly half say they'd like to see stocks decrease even more over the next six months.

All this suggests that no one is really worried about availability, partly because of the improving USX supply picture. In any event, there is less concern about shortages over the next six months.

Indeed, the only real concern is in coated sheet—but even here, fewer buyers are worrying now than in previous months.

Import prices
(Compared to domestic)

Steel buyers

ABOVE 14%

[redacted]

[redacted] BELOW 31%

SUBSTANTIALLY BELOW 3%

Service centers (carbon)

ABOVE 3%

[redacted]

[redacted] BELOW 20%

0-20% BELOW 7%

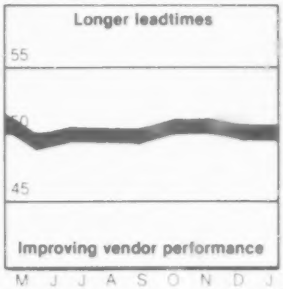
OVER 20% BELOW 0%

Source: Steel Service Center Institute, NAPM Steel Buyers Committee

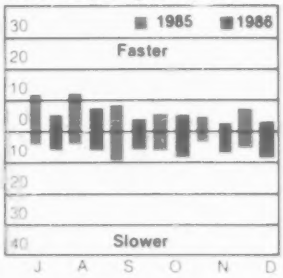
Monthly procurement status report

Leadtime index

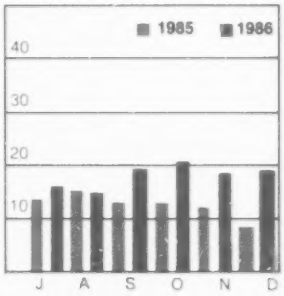
A "diffusion" index based on 158 key commodities. Above "50" indicates a tendency for leadtimes to stretch out. Below "50" suggests improving vendor performance.



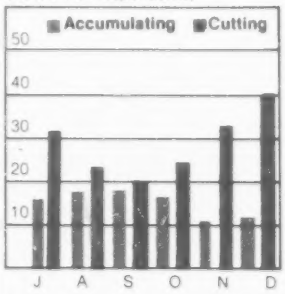
Delivery performance
(Percent reporting deliveries)



Forward commitments
(% committing 90 days or more in advance)



Inventory strategy
(Percent of respondents)



Source: NAPM

PROCUREMENT STATUS

Ample supplies are no surprise

Count on another year of adequate supplies and a continuing buyers' market in most industrial procurement areas.

Behind this "no-sweat" situation are the relatively small demand gains currently being forecasted. Increases will be offset by further incremental boosts in new factory capacity.

New production potential is projected to advance 2% over the current year. But production gains over

the same period (according to a recent *Purchasing-World* survey of econometric models in January 1987) will be rising only 2.3%. So the current 79% overall factory utilization rate is not going to change much.

In any event, it generally takes an 85% rate before problems begin cropping up. That level is still nowhere in sight.

A closer look at industry-by-industry rates is also reassuring (see table). Note that some sectors like steel are mired in the low 60% range. And the current 70% or so readings for both electrical and non-electrical machinery could scarcely be called robust.

A few sectors—paper, textiles, and petroleum products—are sporting 90% or higher rates. But even these readings present no problems.

The paper industry, for example, generally prefers to operate in the upper 90s range. And while textile rates might seem high, the continuing huge influx of imports completely negates any impact that such a reading might otherwise have implied.

In another way, there's not one single industry that would not want to be operating at a higher-than-current rate these days. This is a good indication that buyers will remain firmly in the driver's seat with little more than selective price increases likely in the near future.

Leadtimes and availability

Chicago: Chlorine leads have been halved (to ½ week). But moving out are aluminum coil and sheet (both now 12-14). No changes in other aluminum items like bars (8), plate (12), and angles and extrusions (6-8). Other metals are also steady.

Cleveland: Hardwood lumber is in a week (to 1-2)—putting it on par with softwood. In paper, natural kraft is now available on demand but other papers remain unchanged.

Los Angeles: Another quiet month—with these weekly leads: Galvanized steel (12-14), aluminum tubing (5-7), grey iron and brass castings (8-10), electromechanical devices (6-8), specialty wire (4-6), pumps (10-12), std. fasteners (4), and stainless coil (16-18).

Houston: Japanese alloy heat exchangers have come in to 8-9 weeks and high-pressure carbon heat exchangers (to 7-9). Also holding steady are corrugated (3½), plastic resins (6½), galvanized steel coils (16), and plastic bottles (16).

Philadelphia: Aluminum foil has moved out to 10-12 weeks and could extend further because of a strike. Possible stretchouts are also seen for yellow and white greases—with a doubling to 2 weeks possible before too long because of seasonal influences and more exporting.

Pittsburgh: Things remain unchanged despite some demand pickup. Typical leads in weeks: Multiwall bags (6), plastic bags (3-4), corrugated and folding boxes (3-4), wirebound boxes (4-5), drums (1), lumber (3-4), laminated papers (6-9), steel strapping (2-3), coil coating paint (4), alloying materials (2), and plastic resins (5-6).

Satisfaction Through
RAPID RATE™

RapidRATE™ is a three-digit zip code pricing system we created to make your rating process quick and easy.

RapidRATE™ provides you with both regional and transcontinental rates as well as service. You already know we specialize in regional and transcontinental freight. Now, with RapidRATE™ you can combine this service with the benefits of faster invoicing and easier auditing.

Select from four options to meet your needs: speed sheets, personal computer diskettes, magnetic tapes and complete tariffs.

Contact your local ANR Freight System representative or call 1-800-525-2061.

ANR

ANR FREIGHT SYSTEM

Circle 364 on card

BUSINESS DATATRAK

Leadtimes (in weeks)

	Now	Month ago	Six months ago
STEEL			
Sheet (Phil)	4	4	4
C-R Sheet (Chgo)	10	10	7½
Plate (Phil)	3½	3½	3½
Plate (Chgo)	4½	4½	2½
Reinforced (Hous)	6	6	6
H-R Bars (Phil)	5½	5½	5½
H-R Bars (Chgo)	4½	4½	4
Cold-Drawn Bars (Phil)	5½	5½	5½
Galvanized (LA)	13	13	13
Galvanized (Chgo)	6½	6½	7½
Structurals (Chgo)	4½	4½	4½
Structurals (Hous)	17	17	17
Tubing (Phil)	5½	5½	5½
Grey Iron Castings (LA)	9	9	9
Steel Castings (Hous)	11½	11½	11½
Forgings (Hous)	6	6	6
Pipe, Carbon (Hous)	17	17	17
ELECTRIC & ELECTRONIC			
Cables (Chgo)	8½	8½	8½
Capacitors (Chgo)	16	16½	14½
Circuit Breakers (Chgo)	6	6	6
Electromech. Devices (LA)	7	7	7
ICs (Linear) (Phil)	9	9	9
Motors (Phil)	9	9	9
Motors, 1000 hp & Up (Hous)	39	39	39
Printed Circuit Boards (Chgo)	9	9	9
Relays (Chgo)	15	15	15
Resistors (Chgo)	9	9	9
Resistors, Wirebound (Phil)	5	5	5
Transformers (Chgo)	10	10	10

LUMBER	Now	Month ago	Six months ago
Hardwood (Pgh)	3	3	3
Hardwood (Clev)	1½	2½	1½
Plywood (Chgo)	3	3	1½
Plywood (Phil)	1½	1½	1½
Softwood (Clev)	2	2	2
Softwood (Phil)	⅛	⅛	⅛
Softwood (Pgh)	3	3	3
Particleboard (Phil)	2½	2½	2½
CHEMICALS-PLASTICS			
Adhesives (LA)	½	½	½
Naphthalene (Chgo)	2	2	2
Paint (LA)	4	4	4
Paint, Coil Coating (Pgh)	4	4	4
Paint, Maint. (Cleve)	2	2	2
Polyester Resin (LA)	2	2	2
Polyethylene Resin (Cleve)	2½	2½	1½
Polyethylene Resin (Pgh)	4	4	4
PVC Resin (Chgo)	2	2	2
PVC Resin (Pgh)	6	6	6
Titanium Dioxide (LA)	1	1	1
PACKAGING			
Bags, Kraft (Pgh)	5	5	5
Bags, Multiwall (Clev)	9	9	9
Bags, Multiwall (Pgh)	6	6	6
Cartons, Corrugated (Cleve)	2½	2½	2½
Cartons, Corrugated (Hous)	2	2	2
Cartons, Folding (Phil)	6½	6½	6½
Cartons, Folding (Pgh)	3½	3½	3½
Cellophane Wrap (Phil)	5	5	5
Plastic Bags (Pgh)	3½	3½	3½
Plastic Pkg. (Pgh)	3	3	3

SPECIALTY SPRING STEELS

For Those Who Want It Right The First Time.

FOR PROMPT SERVICE IN SMALL QUANTITIES ...CALL "THE SPECIALISTS"

• WRITE FOR CATALOG

WE CAN Slit, Shear, Level, Edge Condition, Cold Reduce ... all with the utmost precision.

WE INVENTORY 1010 1018 1020 1035 1045 1065 1075 1080 1095 5160 4130 Mod.A Blue Tempered Spring Steel, CR strip in all tempers, and CR Annealed Spring Steel.

OUR LAB does Chemical Analysis, Tensile Testing, Ductility Testing, Hardness Testing.

OUR STOCKS ARE Cold Rolled, Hot Rolled, Hot Rolled Pickled, Annealed, stress relieved and as rolled in plates, strip, sheets, coils and bars.

Admiral® STEEL CORPORATION
4152 W. 123rd St., Chicago (Alsip), Ill. 60658
(800) 323-7055 • (312) 928-9600 • (312) 388-9600

Circle 365 on card

Ladders, lifts and lots more

Ballymore manufactures everything you need in rolling safety ladders, hydraulic lifts and platforms, materials handling equipment, and special purpose access equipment. Our new 14-page catalog covers more than 200 pieces of Ballymore equipment. Send for your free copy. Ballymore Company, 220 Garfield Ave., West Chester, PA 19380 215-696-3250 Telex: 902495

BALLYMORE

Circle 366 on card

	Now	Month ago	Six months ago
Shrink Film (Chgo)	6	6	6
Shrink Film (Clev)	1	1	1
Drums, Fiber (Pgh)	1	1	1
Drums, Steel, Std. (Pgh)	1	1	1
Wood Pallets (Chgo)	2½	2½	2½
Wirebound Boxes (Pgh)	4½	4½	4½
Strapping (Clev)	1	1	1
Strapping (Pgh)	3	3	3
PAPER			
Fiberboard (Clev)	3½	3½	3½
Glassine (Clev)	4½	4½	4½
Glassine (Pgh)	5½	5½	5½
Groundwood (Clev)	4½	4½	4½
Groundwood (Pgh)	7	7	7
Kraft (Clev)	1	1	1
Kraft, Bleached (Clev)	1	1	1
Kraft, Bleached (Pgh)	5	5	5
Kraft, Natural MFNS (Clev)	½	1	1
Laminated (Clev)	8	8	8
Tissue (Pgh)	5½	5½	5½
NONFERROUS			
Aluminum Coil (Chgo)	13	11	12
Aluminum Plate (Chgo)	12	12	12
Aluminum Sheet (LA)	4½	4½	4½
Aluminum Sheet (Chgo)	13	11	12
Brass Castings (LA)	9	9	7
Brass Rods (Chgo)	9	9	7½
Brass Sheet (Chgo)	5	5	5
Brass Tube (Chgo)	7	7	8
Copper Fittings (LA)	3½	3½	3½
Copper Mill Prod. (Pgh)	6	6	6

	Now	Month ago	Six months ago
Copper Tube (LA)	7	7	7
Copper Tube (Phil)	5½	5½	5½
Lead (Pgh)	2	2	2
Magnesium (Pgh)	2	2	2
Manganese (Clev)	1	1	1
Nickel (Clev)	1	1	1
Nickel (Pgh)	2	2	2
Silicon (Clev)	1	1	1
Tin (Pgh)	2	2	2
Wire, Specialty (LA)	5	5	7
Zinc (Pgh)	3	3	2
MISCELLANEOUS			
Bearings, Domestic (Phil)	2	2	2
Bearings, Foreign (Phil)	26	26	26
Boilers & Furnaces (Hous)	35	35	35
Compressors, Centrifugal (Hous)	48	48	48
Compressors, Reciproc. (Hous)	39	39	39
Fasteners (Chgo)	1½	1½	1½
Fasteners (LA)	9	9	7
Fasteners, Std. (Phil)	3	3	2½
Heat Exchangers, Carbon-alloy Steel (Hous)	21	21	21
Heat Exchangers, Hi-pressure (Hous)	26	26	26
Insulation Mat'l. (LA)	7	7	7
Machined Parts (Hous)	9	9	9
Pipes & Valves (Chgo)	1½	1½	1½
Pumps (Hous)	24	24	24
Pumps (LA)	11	11	9
Rubber, Synthetic (LA)	2	2	2
Rubber Hose (LA)	4	4	4
Tungsten Carbide Parts (Hous)	15	15	15
Valves, Cast Steel (Hous)	17	17	17
Welding Supplies (Hous)	5	5	5

Satisfaction Through PERFORMANCE

Slow shipments mean lost dollars to your company. They disrupt your production schedules and can even cause lost sales.

We can help. ANR Freight System specializes in service. For example: we cover over 14,000 points direct so your freight doesn't wait to be interlined. And, as regular customers, you receive daily pick-up service—consistently. Finally, because of numerous direct schedules, your freight doesn't sit in break bulks. It's on its way to destination.

There you have it. Seventy-three years of service tradition. Unique RegionalPLUS™ service. Quick and easy rating with RapidRATE.™ And strong transit time performance.

Contact your local ANR Freight System representative or call 1-800-525-2061.

ANR

ANR FREIGHT SYSTEM

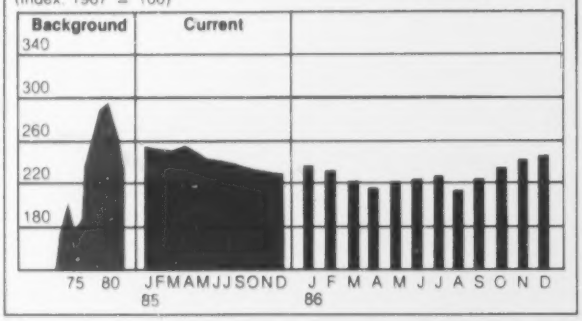
Circle 367 on card

BUSINESS DATATRAK

Raw material price barometer

(Index: 1967 = 100)

Latest month	246.9
Month before	243.7
Year ago	235.0



Latest spot market prices

	Latest price	Previous month	Year ago
FERROUS METALS			
Pig iron, basic, valley, gross ton	213.00	213.00	213.00
Pig iron, Bessemer, Pitts., gross ton	213.00	213.00	213.00
Steel, billets, Pitts., net ton	367.00	367.00	367.00
Steel, structural shapes, Pitts., cwt	23.90	23.90	23.90
Steel, structural shapes, Chi., cwt	23.90	23.90	23.90
Steel, structural shapes, Los Angeles, cwt	23.90	23.90	23.90
Steel, bars, dlvd. Phila., cwt., merchant quality	23.95	23.95	23.95
Steel, bars, Pitts., cwt	23.95	23.95	23.95
Steel, bars, C.R., Pitts., cwt	31.00	31.00	31.00
Steel, plates, Pitts., cwt	18.25	18.25	18.25
Steel, plates, H.R., Pitts., cwt	18.25	18.25	18.25
Steel, sheets, C.R., Detroit, cwt	25.90	25.90	25.15
Steel, strip, C.R., Chi., cwt	36.18	36.18	36.18
Steel, basic wire, Pitts., cwt	23.65	23.65	23.65
NONFERROUS METALS			
Aluminum, ingot, lb. (market place)	.535	.520	.533
Antimony, N.Y., dealer, lb.	1.05	1.16	1.28
Beryllium-copper, cost ingot, lb.	5.65	5.65	5.35
Brass, red, 85%, [sheet], lb.	1.29	1.27	1.32
Brass, yellow, [sheet], lb.	1.24	1.22	1.27
Cadmium, N.Y., dealer, lb.	0.97	0.98	0.85
Copper, electrolytic, wire bars, refd., lb.	.65	.63	.69
Copper sheet, over 24 in., lb.	1.38	1.36	1.41
Lead, common, N.Y., lb.	.280	.275	.185
Magnesium, pig ingot, [99.8%], lb.	1.53	1.53	1.53
Mercury, 20 fl. lots, N.Y., fl.	220.00	220.00	269.00
Molybdenum, oxide, dealer, lb.	3.10	3.03	2.55
Nickel, cathode, dealer, lb.	1.70	1.78	1.95
Platinum, dealer, oz.	534.00	477.00	364.00
Silver, N.Y., oz.	5.57	5.36	6.05
Tin, N.Y., dealer, lb.	3.13	3.06	4.11
Zinc, Prime West, East St. Louis, lb.	.41	.44	.34
Zinc, die casting alloy, No. 3, lb.	.525	.525	.415
PAPER			
Uncoated book #3 offset, ton	860.00	850.00	850.00
Watermarked bond, ton	985.00	985.00	985.00
Gummed sealing tape, carton	16.38	16.32	16.23
Shipping sacks, ton	390.00	390.00	390.00
Solid bleached paperboard, ton	550.00	550.00	550.00
Kraft linerboard, 42 lb., unbleached, ton	320.00	320.00	290.00
TEXTILES			
Burlap, 10 oz., 40", N.Y., yd.	.243	.227	.255
Cotton drill, 1.85, 59", 68x49, N.Y., yd.	1.060	1.060	1.045
Cotton middling, 1", N.Y., lb.	.545	.500	.595
Printcloth, 48", 80x80, N.Y., spot, yd.	.90	.90	.72
Army duck, 37", 13 oz., yd.	1.40	1.40	1.56
Blended printcloth, 64", 78x54, yd.	.80	.80	.80
20s combed yarns	1.74	1.74	1.95
Wool 64s, Staple, lb.	1.90	1.90	1.80
CHEMICALS			
Acrylonitrile, tanks, lb.	.395	.395	.395
Ammonia, anhydrous, tankcars, Gulf Coast, ton	80.00	80.00	N.A.
Benzene, petroleum, tanks, Houston, gal.	1.15	0.98	1.20
Caustic soda, 76% solid, drums, carlots, cwt.	26.00	26.00	26.00
Cresylic acid [over 25%], tanks, lb.	.58	.58	.58
Formaldehyde, USP, 37%, [12% to 15% meth.], tanks, lb.	.106	.106	.106
Glycerine, synthetic, tanks, lb.	.91	.91	.91
Methanol, sny., tanks, 4,000 gals., f.o.b. Gulf Coast plants	.28	.28	N.A.
Naphthalene, crude, tanks, lb.	.22	.22	.22
Phthalic anhydride, tanks, lb.	.27	.27	.27
Polyethylene resin, low density liner film grade (market place), lb.	.290	.295	.310
Polypropylene, homopolymer grade (market price), lb.	.325	.325	.350
Polystyrene, general purpose grade (market price), lb.	.36	.36	.34
Polyvinyl chloride, pipe grade (market price), lb.	.295	.285	.250
Soda ash, 58%, light carlots, cwt.	6.15	6.15	6.15
Styrene monomer, 99.6%, tanks, lb.	.25	.23	.26
Sulphur, crude, ex-terminal, Tampa, Fla., lt.	152.50	152.50	157.50
Sulphuric acid, 66%, commercial, tanks, ton	66.86	66.86	66.86
Titanium dioxide, anatase, reg., carlots lb.	.77	.77	.73
Xylene tanks, gal.	.765	.765	1.360
BUILDING MATERIALS			
Lumber, 2x4 fir, mbf, cl.	326.75	327.75	306.40
Lumber 2x2 pine, mbf, cl.	318.65	316.20	291.95
Plywood, plyform, ⅜", msf, cl.	584.10	592.35	582.15
Plywood, ½", msf, cl.	382.60	392.40	380.06
Cement, bulk, ton, tl.	63.63	63.28	64.98
Sand, ton, cl.	6.62	6.62	6.41
Ready-mix concrete, 3,000 psi/cu. yd., 15 cu. yd.	48.27	48.27	48.12
Crushed stone, 1½", ton, cl.	7.83	7.83	7.86
Concrete blocks, sand/gravel, 8"x8"x16", ea., tl.	0.84	0.84	0.82
Gypsum sheathing, ½"x1"x8", msf, tl.	213.87	213.07	208.69
Brick, common, per thousand, tl.	186.42	186.51	184.61
Asphalt paving, AC-20	124.19	127.08	176.14
Concrete sewer pipe, 12", prem. joint, per foot, cl.	7.36	7.36	7.14
FUELS			
Fuel oil, No. 6 or Bunker C, Gulf., bbl.	15.00	11.50	20.00
Fuel oil, No. 6 or Bunker C, N.Y., barge, bbl., reseller	19.25	17.00	27.00
Gasoline, 91 oct., reg., Los Angeles, rack, gal.	.485	.375	.743
Gasoline, 94 oct., reg., Chi., tank car, gal.	.500	.428	.708
Heating oil, No. 2, Chi., bulk, gal.	.500	.430	.773
Heating oil, No. 2, N.Y., bulk, gal.	.483	.438	.768
Heavy fuel, PS 400, Los Angeles, rack, bbl.	26.50	26.50	26.50
Jet kerosene, gal.	.530	.433	.753
LP-Gas, propane, Okla., tank cars, gal. [incl. discount]	.245	.240	.430
SCRAP MATERIALS			
Steel, No. 1, hvy., dlvd., Pitts., ton	80.00	79.00	74.00
Steel, No. 1 hvy., dlvd., Chi., ton	77.00	72.00	73.00
Copper, No. 1, East, wholesale buy, dlvd., lb.	.560	.550	.580
Copper, No. 2, East, wholesale buy, dlvd., lb.	.480	.465	.510
Brass, red, East, wholesale buy, dlvd., lb.	.520	.510	.540
Brass, yellow, East, wholesale buy, dlvd., lb.	.330	.330	.290
Alum., old sheet/cast, E., wholesale buy, dlvd., lb.	.340	.315	.320
Alum., mixed clip, E., wholesale buy, dlvd., lb.	.365	.335	.345
Zinc, old, East, wholesale buy, dlvd., lb.	.200	.200	.110
Lead, clean solids, East, wholesale buy, dlvd., lb.	.170	.165	.100
Paper, No. 1 mixed, dlr., N.Y., ton	Nom.	Nom.	Nom.
Paper, old corrug. box, dlr., Chi., ton	25.00	24.00	8.00
Paper, old corrug. box, dlr., N.Y., ton	20.00	20.00	6.00
Csnaburg cuttings, dlr., f.o.b. N.Y., lb.	.095	.090	.080
White wipers, No. 1, dlr. buy, f.o.b. N.Y., lb.	.110	.100	.140

[Sources: Metals Week, Engineering News-Record (20-city averages), Platt's Oilgram Price Service.]

U.S. pundits predict passable '87

Robert Reichard, executive editor

Washington economists remain cautiously optimistic about the prospects for 1987. They are calling for a 2% real advance in overall industrial shipments—actually a bit above the 1.3% compound annual growth rate of the past 15 years.

Another encouraging sign: About 70% of the 219 manufacturing industries surveyed in the new *1987 U.S. Industrial Outlook* are expected to end up in the plus column this year. That's several points above last year's 66% reading and far above the 30-35% low of 1982 (see accompanying chart).

One factor behind this basically bullish outlook is the expected shift in trade patterns. The new forecast for example, indicates that the U.S. trade deficit for the year as a whole could fall by as much as $40 billion.

Unfortunately, not every industry will share in the expected 1987 advance. The 22 fastest growing industries will exhibit a real growth rate of at least 5.4% while the 22 slowest growing industries will decline by at least 4%.

High-tech industries, sparked by semiconductors, will lead the pack. Following close behind with strong growth rates are: electronic capacitors, optical devices, X-ray apparatus, electrical measuring devices, automotive stampings, surgical appliances, adhesives and sealants, particle-board, and missiles and space vehicles.

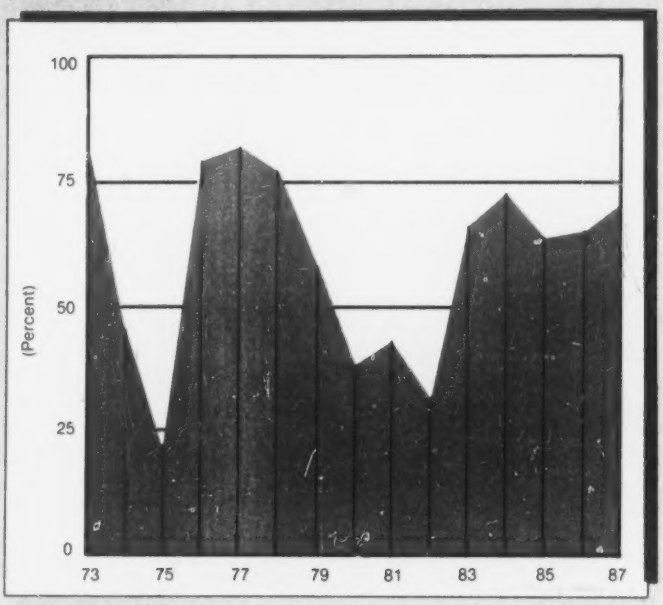
Less ebullient performances are anticipated for most smokestack industries. Machinery and vehicles will be off and metals will be mixed, with only a few products likely to eke out meaningful demand gains. Uncle Sam's experts also expect major differences in price performance. Specifically, 1987 price projections are given for more than 50 individual sectors. But the estimates vary widely—from increases in excess of 10% for petroleum products to actual declines in fertilizers and semiconductors. In any event, very few are close to the 3.7% general price increase now anticipated in 1987 for industry overall.

Here's a more detailed industry-by-industry rundown, based on the assumptions that there will be 1) a 4% increase in real GNP this year, 2) continued restraint in wage increases, and 3) an accommodative monetary policy.

- **Construction:** 1987 gains will be quite modest—perhaps less than 1% in real terms versus last year's 5% advance. Increases in home building and public works will be partially offset by declines in non-residential construction. The declines in commercial construction will intensify but the number of private housing units started should be the same as in 1986. But the value will increase because of a shift in mix toward larger single family homes.
- **Fabricated structural steel:** Declines in office building, utilities, and multifamily housing units will take their toll. All in all, shipments may drop about 8% in 1987—a sharp contrast to last year's 3% gain.
- **Cement:** Shipments should slide about 2% in real terms this year—primarily reflecting a drop-off in nonresidential construction. On the positive side, demand will benefit from the strength of the single-family housing and highway sectors, and improving industrial construction.
- **Gypsum products:** Shipments are expected to fall 3% this year, reflecting sharply lower levels of nonresidential building construction. Sales should drop from the 1986 record level of 20.6 billion square feet to about 20 billion—which would still be the second highest annual sales figure.
- **Lumber:** Look for a 4% gain in industry shipments. A strong housing market, low interest rates, and the gradual decline in the dollar will be the major factors in the anticipated increase. Since the industry continued to cut production capacity in 1986, it has also been able to reduce inventories. Prices are up somewhat, providing better profit margins.
- **Paper:** Based on forecast improvements in the domestic printing and packaging markets, as well as expected gains in exports, shipments by the paper and board sector (adjusted for inflation) could rise 3.2% in 1987. On the price front, lower user inventories and firm demand could open the way for additional cost-recovery price boosts during the next few quarters.
- **Corrugated boxes:** Shipments are projected to climb 3.5% in 1987—slightly below the relatively high 1986 rate of real growth but still

How Uncle Sam sees 1987

Share of industries with increasing shipments (of 219 industries)



Source: Commerce Dept.

Most industries will end up in the plus column

The top 10 performers

	Percent growth
Semiconductor devices	26.5
Electronic capacitors	11.5
Optical devices/lenses	11.0
X-ray apparatus	10.9
Elect-measure devices	10.0
Automotive stampings	9.4
Surgical appliances	8.8
Adhesives and sealants	8.3
Particleboard	8.2
Missles/space vehicles	8.0

But not all will fare equally well

The 10 weakest

	Percent decline
Turbine generator sets	– 62.4
Metal-cutting machines	– 13.2
Bldg paper/board mills	– 10.0
Fabr structural metal	– 8.0
Special dies/tools/jigs	– 7.5
Photoengraving	– 7.3
Vehicles & car bodies	– 7.1
Games & toys	– 6.6
Metal-forming machines	– 6.3
Footwear	– 6.1

above the industry's long-term average annual rate. Exports are expected to continue to rise in volume and value in 1987, but at about half the rate of increase of last year.

■ **Petrochemicals:** A small 1.9% shipment increase (in constant dollar terms) is expected this year—driven by increased demand in transportation, construction, packaging, and consumer durables. On the other hand, shipments are not expected to increase as much as consumption because low-priced imports will continue to be a major factor in the U.S. market despite the weaker U.S. dollar.

■ **Inorganic chemicals:** Constant-dollar industry shipments are expected to remain flat except for chlor-alkalis where a 4% gain is seen. Imports are expected to decline further because of the softer dollar, while exports will stay flat or increase only slightly.

■ **Industrial gases:** Domestic demand for major gases is projected to increase 3% in real terms this year. But demand for nitrogen, which is used to enhance the recovery of oil from oil wells, will continue to be depressed. Exports of gases should increase only slightly because of the weaker dollar.

■ **Agricultural chemicals:** Shipments should hold at 1986 levels because of the depressed domestic demand and the lack of any improvement in exports. Imports should rise to meet the demand stimulated by the U.S. grain contract with the Russians. Plant closures, which began in August 1986, are expected to continue because of low ammonia and urea prices.

■ **Plastic resins:** Figure on a 2% constant dollar increase in shipments this year—well under last year's big 6% + advance. Prices will depend primarily on the cost of petroleum feedstocks. In addition, competition will be keen as more developing nations start producing plastic resins. Exports will decline and imports will increase. The softer dollar will have little effect on the trade balance because many producers shifted output offshore when the dollar was high.

■ **Paints and coatings:** Industry shipments this year are forecast to rise by about 3%. Continued improvement in demand is highly dependent upon developments in the construction and manufacturing industries—which, in turn, depend on the availability of credit. The most promising growth markets over the longer run will be specialty coatings to pretreat polymer composite surfaces for bonding, and special formulations for use in the manufacture of electronic components. Also looking good: coatings for corrosion prevention and industrial maintenance and equipment repair.

■ **Adhesives and sealants:** Shipments should jump by more than 8% this year. Demand in certain markets—new aerospace markets and refurbishing of old aircraft—will boost consumption. But demand from other sectors, such as non-housing construction and capital goods, is expected to remain lower than average.

■ **Hoses and belting:** Output should rise about 2% this year, reflecting slowly increasing automotive needs. Other markets such as farm equipment and construction machinery may grow 1-2% at best. Imports of foreign machinery and equipment containing foreign hose and belting will remain substantial. Exports may increase slightly because of

1987 Price trends: A Washington view

	Percent price changes 1987/86
Saw mills & planing mills	0.2
Hardwood dimension & flooring	3.2
Structural wood members	3.3
Paper & board	1.9
Glass containers	1.0
Metal cans	1.8
Coal	1.2
Crude oil & natural gas	10.2
Refined petroleum products	13.7
Industrial gases	1.0
Organic chemicals	1.0
Nitrogenous fertilizers	– 5.1
Toilet preparations	3.6
Steel mill products	2.0
Iron & steel foundries	3.0
Primary copper	0.8
Primary zinc	0.8
Primary aluminum	3.0
Nonferrous foundries	3.0
Metal-cutting tools	2.5
Foundry equipment	0.3
Industrial furnaces	2.8
Welding apparatus	1.4
Pumps & equipment	2.1
Air & gas compressors	1.8
Mining machinery	0.6
Oil field machinery	0.5
Paper industry machinery	1.3
Transformers	2.8
Radio & TV equipment	4.2
Telephone & telegraph apparatus	3.0
Telecommunications services	2.7
Electronic components & accessories	0.2
Semiconductors & related devices	– 11.1
Electronic capacitors	– 2.5
Electronic resistors	2.0
Electronic coils & transformers	2.0
Electronic connectors	2.8
Electron tubes	3.5
Xray & electromedical apparatus	1.2
Surgical & medical instruments	1.0
Dental eqpt & supplies	1.9
Truck & bus bodies	2.5
Truck trailers	2.5
Motor vehicle parts & stampings	2.5
Aircraft	4.0
Aircraft engines	3.9
Shipbuilding & repair	2.7
Dairy products	1.2
Cereal foods	3.5
Confectionary products	8.0
Alcoholic beverages	2.0
Travel services	3.2

Source: Commerce Dept.

more favorable monetary exchange rates—and imports may decline slightly.

■ **Steel mill products:** Shipments will be off an additional 2.2% in 1987—to 68 million tons. This will mark the sixth year of the industry's slump and, on a shipment basis, will be the industry's worst year since 1983. The anticipated demand softness, in turn, will keep prices weak. Only about a 2% overall increase is currently anticipated.

■ **Ferrous castings:** Tonnage is forecast to increase by 4% from the relatively low levels of last year. This basically bullish projection is based on expectations of a substantial increase in general economic activity, improvement in the foreign trade balance, and somewhat larger output in some of the castings end-use industries. Prices should increase by 3%.

■ **Lead:** A small 2% consumption gain will push totals to 1.225 million short tons. In any case, sales of original equipment auto batteries are expected to increase, and replacement battery sales could rise, too, if winter is as cold as normal. But further declines in the leaded gasoline market are expected.

■ **Aluminum:** Shipments should increase by 2.2% in 1987 to 16.1 billion lb. Improved demand is expected in all end-use markets except transportation. The amount of metal used per car will increase to about 150 lb but this will be offset by a decrease in auto production. Reduced defense spending will also cut into transportation demand. As for prices, primary aluminum is expected to inch up by 3%.

■ **Copper:** A 1% decline in domestic use is possible because of much slower growth in new construction and a decrease in motor vehicle production. Not surprising, prices should remain weak—holding in the relatively low 65-70¢/lb range through 1987 as substantial amounts of idled capacity continues to hang over the market.

■ **Zinc:** Consumption in 1987 should increase by only 1.5% to 960,000 tons. Galvanizing will be the only end-use sector to improve—sparked by a surge in demand for electrogalvanized steel sheet in the auto sector. The industry's capacity to produce this sheet already rose 2.5 million tons in 1986. Prices should remain relatively stable.

■ **Machine tools:** The combination of reduced metalworking manufacturing, continued strong foreign competition, and the effects of tax reform on capital investment will result in declining demand. Constant-dollar shipments of metal-cutting and metal-forming tools are expected to fall 13% and 6%, respectively. Domestic manufacturers will continue to consolidate—stripping product lines and seeking offshore suppliers.

■ **Power driven hand tools:** Real shipments will rise by less than 1%—with the only truly bullish sign being a further spurt in sales of cordless tools. An 11% rise in imports is also seen. Half of the imports will come from Japan—with Italy, Sweden, Canada, and West Germany contributing major amounts.

■ **Screw machine products:** A fractional 0.4% drop is projected because of weak demand in the auto industry. This drop will more than offset gains anticipated for shipments to the aircraft and machinery sectors. Imports will remain a major concern.

■ **Bearings:** Modest increases in construction and farm machinery, mining and oil field equipment, and some industrial equipment markets should make for about a 1% increase in demand. But imports will remain a headache for domestic producers—with another 6% increase in foreign shipments expected to comprise 17% of the U.S. market.

■ **Computers:** Demand will vary by type. Mainframe shipments should increase 4% as products with greater processing power at reduced cost hit the market. Medium-scale computers will be up about 9%. Micro systems, however, will be lucky to advance 5%. And even this could be misleading since unit shipments will decrease slightly as U.S. suppliers move to higher value-added systems.

■ **Semiconductors:** Real shipments could rise by about 26.5%. But prices will remain soft with about a 11% average decline anticipated. Contributing to the price slippage will be declines in the state-of-the-art 32-bit microprocessor. ***PW***

Imports still look good to PMs

The U.S. dollar may be a lot weaker than it was just a year ago—but you'd never know it from looking at current import trends.

According to a nationwide *PurchasingWorld* survey, the number of PMs planning to beef up incoming shipments in 1987 tops those contemplating cutbacks. More important, there still seem to be plenty of bargains around. Prices in many lines are running well under those quoted for comparable domestic products.

Import tags have moved up moderately, and the price advantage has narrowed a bit, but, for the most part, the savings remain quite large (see accompanying chart).

According to queried purchasing executives, there are several reasons for the continuing import influx. One is that overseas producers have been shaving their profit margins rather than letting exchange rate changes dictate big price boosts.

Another factor cited is that exchange rate changes have tended to be selective rather than across the board. For example, while Japanese quotes have quite clearly moved up (reflecting the appreciation of the yen), many Third World countries have managed to keep their exchange rates steady relative to the dollar. In some cases (Korea is a good example), these countries have actually managed to increase the overall competitive intensity.

Here's a more detailed rundown on how purchasing managers evaluate the import situation for the immediate future:

- **Recent price changes:** Roughly half of those queried say import prices have not risen over the past year—at least as far as overall averages are concerned. Another 20% say the increases have been in the moderate 1-4% range. Conversely, only 30% put increases in the 5% or higher range.
- **Price breaks:** While import boosts, overall, have been enough to narrow the price advantage (according to 58% of those surveyed), savings are still quite substantial. Specifically, half of the respondents put the price break in the 15% or higher range.
- **Best bargains:** The list is quite impressive—including machinery, electronic components, keyboards, fasteners, steel, copper tubing, castings, forgings, packaging, brake drums, dies, plastic moldings, compressors, and machine tools.
- **Potential 1987 import boosts:** Areas mentioned as possible targets for price increases include steel, die castings, plastic resins, bearings, fasteners, nonferrous metals, wheels, and various types of machinery—with the latter being given impetus from recently imposed quota limitations.
- **Exchange rate role:** Backing up the contention that the weaker dollar has not had any earth-shattering impact is the fact that only 32% of the respondents feel that exchange rate shifts have had a significant effect. But another 40% do say that the softer dollar has played a role in edging import prices up a bit.
- **1987 import volume:** If buyers follow through on their intentions, total incoming shipments should rack up their fifth consecutive yearly rise. Specifically, 58% of the respondents see increases (25% dubbed the projected gains as significant) vs. the 21% who see no change, and another 21% who feel some reductions may be in order.

On the other hand, most U.S. firms say that imports still make up a small percentage of their overall procurement bills—62% put the proportion at 9% or less. Another 21% estimate that the import share is between 10-24%.

The reasons for continuing to import—aside from the obvious price advantages cited above—are not hard to find. A sizable number of purchasing executives cite quality equal to or better than U.S. quality. Other factors behind the continuing inflow: lack of a domestic source, reliable delivery promises, the need for multiple sources, and license agreements.

Import selling efforts could also be playing a role. Thus 37% of responding PMs now say that overseas shippers are more active in soliciting their business than they were a year ago. That compares to 21% who note less activity and 42% who see no change.

One Midwestern buyer sums it all up: "Maybe we aren't getting all of the bargains we did a year ago. But, unless the dollar retreats a lot more (and we don't think it will), there's enough being offered out there to justify another increase in our overall incoming tonnage." ***PW***

Imports: A buyer's assessment